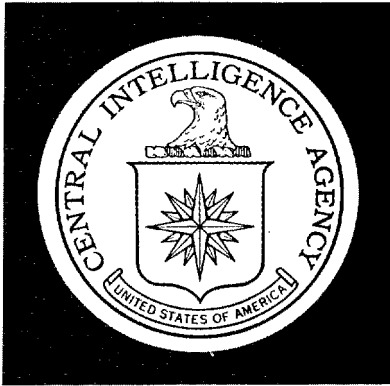


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

State Department review completed

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(Information as of noon EST, 26 December 1968)

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URUGUAY ON SLOW ROAD TO RECOVERY

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President Pacheco has acquired more power to guide and control the country's faltering economy, but the problems are complex and real progress will continue to be slow.

STRAINS IN THE CENTRAL AMERICAN COMMON MARKET

25

For the second time in six months, the seven-year-old Central American Common Market is faced with a troublesome internal dispute.

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FAR EAST

The North Vietnamese in Paris seem to be marking time pending the outcome of consultations on the allied side. The Communists may have concluded that nothing can be accomplished until the new US administration is in office.

Hanoi has avoided authoritative reaction to ideas recently expressed by Secretary Clifford, Henry Kissinger, and Vice President Ky about separating military from political problems in negotiations and leaving the burden of a political settlement to Saigon and the Liberation Front. Although some of these ideas mesh fairly well with long-standing Communist positions, Hanoi is probably acting cautiously to avoid jeopardizing useful openings for the negotiations.

The usual rash of minor enemy violations occurred during the allied Christmas Day truce in South Vietnam. There are continuing signs that Communist forces are still trying to get set for a new round of fighting, particularly in III Corps. The Viet Cong offer to release three US prisoners is being used by the Communists to force the US to deal with Front representatives at the local level.

In Laos, the North Vietnamese offensive in the Bolovens Plateau area appears to have stalled, but there are signs that the enemy may renew fighting at Thateng. A promised visit to the area by the International Control Commission may, however, help keep the lid on and forestall, at least temporarily, enemy initiatives. The clearing of Communist guerrillas from Phou Pha Thi in northern Laos has restored the military situation there to almost precisely what it was a year ago.

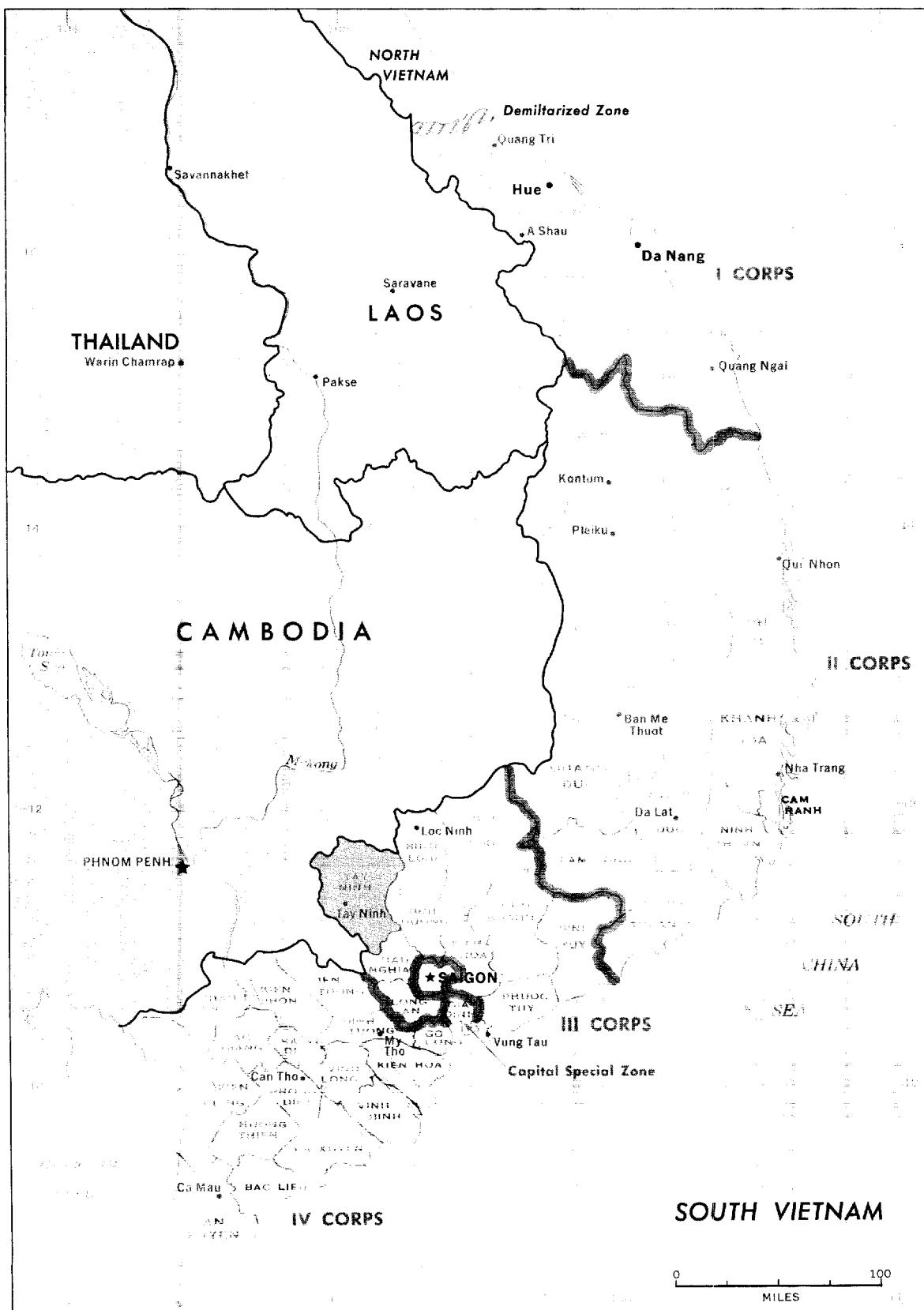
The North Koreans have, as anticipated, given heavy propaganda play to their "victory" in extracting an "apology" from the US for the Pueblo incident. European Communist states have repeated North Korean press statements; Communist China, however, has not reported the event. The Japanese press has suggested that, with the incident closed, US B-52s could be withdrawn from Okinawa. Public reaction in South Korea has been generally critical of the US and probably more closely reflects true feelings there than Seoul's official statements. [REDACTED]

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VIETNAM

The North Vietnamese in Paris seem to be marking time pending the outcome of consultations on the allied side. They have taken no further initiatives to break the deadlock over procedures since making their proposal for a round conference table.

The Communists may have concluded that nothing can be accomplished until the new US administration is in office. They probably believe, to some extent at least, that the US and Saigon are deliberately stalling in order to prosecute the war and bolster the allied position.

Hanoi has avoided authoritative reaction to ideas recently expressed by Secretary Clifford, Henry Kissinger, and Vice President Ky about separation of military and political problems in negotiations and leaving the burden of a political settlement to Saigon and the Liberation Front. Hanoi is probably acting cautiously to avoid jeopardizing useful openings for the negotiations and undercutting divisive influences these statements could have on the allied side.

Clifford's remarks on troop withdrawals and Kissinger's article in Foreign Affairs have been ignored entirely by Communist media, except for a perfunctory Viet Cong broadcast calling Secre-

tary Clifford "deceitful and provocative." In an interview with the French news agency, the chief of the Front delegation in Paris allegedly rebuffed Vice President Ky for his remarks about separate US-North Vietnamese negotiations on military problems and Saigon-Front talks on a political settlement. The accuracy of this press report is questionable, however; Communist broadcasts so far have avoided reporting either the Front official's alleged comment or Ky's statement itself.

This careful Communist treatment indicates interest in the ideas expressed by Clifford, Kissinger, and even Ky. Some of them mesh fairly well with longstanding Communist positions for separate handling of issues concerning North and South Vietnam and for a political settlement "without foreign interference." Hanoi doubtless rejects many details of these ideas, but the Communists almost certainly consider them steps in the right direction.

Political Developments in South Vietnam

Vice President Ky's public proposal for two-stage peace talks seems designed primarily to portray the South Vietnamese as flexible and to place the onus for stalling on the Communists.

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In a television interview, Ky proposed that the withdrawal of North Vietnamese forces be arranged first, with US forces leaving shortly thereafter in accordance with the 1966 Manila Declaration. Only after North Vietnamese withdrawal was well under way and after South Vietnam's border was effectively policed by an international force, would Ky have Saigon talk to the Front as a "reality."

Ky's remark constitutes the most forthright public statement by a South Vietnamese leader of the possibility of a meeting with the Communists to discuss the political future of South Vietnam. Ky's scenario for talks with the Communists, however, was carefully hedged with conditions he undoubtedly knows will not meet with the enemy's approval, thus lessening the likelihood that Saigon will actually have to follow up soon on Ky's proposal by sitting down with the Liberation Front.

South Vietnam's continuing concern for its image abroad is shown by President Thieu's replacement of Information Minister Thien, who was criticized for his poor performance in the international propaganda field. The government is also putting together a goodwill delegation composed of a variety of legislators and political leaders to tour the US and Europe in the hope of influencing prominent

individuals to give greater support to South Vietnam's position.

Military Developments in South Vietnam

On 22-23 December the enemy launched a series of ground assaults and mortar and rocket attacks in the outer reaches of III Corps. These attacks, numbering more than 25, tapered off as the holiday truce began on 24 December and were probably staged only as a show of force. The usual rash of minor enemy violations occurred during the allied Christmas day truce. There are continuing signs, however, that Communist forces are still trying to get set for a new round of fighting, particularly in III Corps.

The current enemy emphasis appears to be on the provinces surrounding Saigon, key areas in the western highlands, and selected targets in the northern provinces. Intelligence sources have indicated limited attacks are planned against Da Nang, Hue, and key cities in the provinces south of Saigon. Although enemy activity may pick up between the Christmas and New Year's holidays, any larger enemy offensive is more likely to come after the first of the new year.

The Communist proposal to release three US prisoners in

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South Vietnam on Christmas Day has turned out to be a ploy to flaunt the alleged authority of the Liberation Front and to force the US to deal with Front representatives at the local level.

The Communists, who met with five US representatives in Tay Ninh Province on Christmas day, would only discuss formalities and did not have the prisoners in their custody.

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LAOS: Current Situation



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NORTH VIETNAMESE OFFENSIVE IN LAOS IS SET BACK

The North Vietnamese offensive in the Bolovens Plateau area appears to have stalled, but there are signs that the enemy may renew fighting at Thateng.

Communist artillery has again shelled the government outpost at Thateng, and the enemy has sufficient forces in the Bolovens area to launch military activity with little notice.

The International Control Commission has, however, responded favorably to a request from the Lao Government to visit the beleaguered outpost. The pres-

ence of some of the commissioners and the attendant publicity may help keep the lid on a delicate military situation and forestall, at least temporarily, enemy initiatives in the area.

In northern Laos, government guerrillas have retaken Phou Pha Thi, an advanced base that fell to the Communists last March. The clearing of enemy units from the Phou Pha Thi area climaxes a five-month-old campaign that has restored the tactical situation there to almost precisely what it was one year ago.

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REACTION TO THE RELEASE OF THE PUEBLO CREW

The North Koreans have, as anticipated, given heavy propaganda play to the US "apology" for the Pueblo incident, portraying it as a major victory of the Korean people over "US imperialism." On 23 December, the day the crew was released, Pyongyang made five separate broadcasts on the subject, including alleged new statements by the crew members expressing thanks for their "humanitarian" treatment during detention. The propaganda drumfire has continued in succeeding days, with little or no variation in content.

The major theme in all the North Korean broadcasts is that the US was forced to "kneel to the Korean people in front of the world," and that the Pueblo incident is further proof that a determined small nation can defeat a "mighty imperialist." Present "humiliation" of the US is being compared to the "abject surrender" of United Nations Command forces at Panmunjom in 1953. Pyongyang has not dealt directly with the US repudiation of the apology document and has maintained that the ship will not be returned.

So far commentary by other Communist countries has been predictable. The Soviet Union and the Eastern Europeans recounted the North Korean version of the incident. East Germany and Bulgaria charged that the US breached international standards of diplomacy by repudiating its signature. Yugoslavia inter-

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preted US signature of the apology as another sign of a new US policy of relaxing tensions in Asia. Communist China has not commented.

Japanese reaction generally has been hopeful that the release will relax tension on the Korean peninsula and facilitate removal from Okinawa of US B52s that were deployed there in the aftermath of the seizure of the Pueblo.

In South Korea, the foreign minister issued an official statement expressing sympathy for the crew and mild approval of the US action securing their release. Initial South Korean public reaction has been generally critical of the US and probably more closely reflects true South Korean feelings. Some newspapers have characterized the US apology as "humiliating" and as contradicting previous US positions. Two government-influenced newspapers, quoting official sources, have taken the US to task for signing the apology, calling the action "tantamount to a breach of faith" with South Korea and indicative of a "low US posture toward North Korea." Spokesmen for both major political parties have generally echoed press reaction.

The Seoul government reportedly is deeply concerned about the possible impact the wording of the apology might have on the constitutional claim of the Republic of Korea to the whole Korean peninsula.

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EUROPE

Foreign Minister Gromyko and a party of Soviet Middle East experts paid a visit to Cairo from 21 to 24 December. The visit took place on short notice, at Soviet initiative. There were no important military officials in the Soviet delegation, suggesting that neither military aid nor the military situation in general was the main reason for the trip. More likely, Moscow was seeking to obtain an up-to-date reading of Egyptian attitudes toward a political settlement before its discussions on this subject with the new US administration.

West Germany's relations with the Soviet Union, immobile since the Czechoslovak invasion, may be on the upswing. Exploratory talks between Foreign Minister Gromyko and the German ambassador in Moscow on an agreement renouncing the use of force are scheduled early next month. The Soviets have also made a proposal for an agreement between Lufthansa and Aeroflot that the Germans find promising. The proposal's implications for Berlin are to be discussed with the Western allies before talks on the subject resume in mid-January.

France's five EURATOM partners decided last week to proceed by themselves in setting up a major research and development program. Whether this "supplementary" undertaking can help revive EURATOM's fortunes will depend largely on the role given to EURATOM's Joint Research Center. France will continue to participate in some of EURATOM's research activities, but the split between France and the Five casts new doubt on future community technological cooperation.

In Czechoslovakia, despite popular uneasiness and signs of dissension within the leadership, Dubcek is pressing ahead with plans for the federalization that comes into effect next week. There have been more threats of mass demonstrations if the reform program is further compromised or if any of the liberals in the leadership are ousted. The new agreement on expanded economic cooperation with the USSR will not make Dubcek's problems any easier and will tend to tie Czechoslovakia even closer to the USSR.

A series of government personnel changes in Poland during the past week portend no major departures from Gomulka's conservative approach in dealing with the country's problems. Most of the changes have been among top-level policy makers concerned with foreign and domestic economic affairs, areas which will remain under Gomulka's purview.

A major overhaul of Yugoslavia's party leadership seems to be in process. A series of party congresses at the republic level has seen a relatively young, competent, and liberal leadership emerging in the party apparatus. This accords with Tito's desire to infuse new and more imaginative elements into the party to replace the older leaders.

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CZECHOSLOVAK LEADERS PREOCCUPIED BY CURRENT PROBLEMS

The Dubcek leadership is continuing as best it can to prepare for the federalization of Czechoslovakia, scheduled for 1 January. There are signs of dissension about the program, however, among top party leaders, and popular apprehension over the country's political difficulties is increasing.

The National Assembly concluded a four-day plenary session on 21 December and approved personnel appointments for the new federal and the separate Czech and Slovak governments. Stanislav Razl, Czechoslovak minister of chemical industry, has been asked to form the first government of the Czech Socialist Republic, which will function alongside a Slovak Socialist Republic under a scaled-down central government in Prague. The new governments probably will be announced next week.

Czechoslovak workers, farmers, students, and intellectuals have threatened to demonstrate en masse if Dubcek's liberal reform program is further compromised or if any of the liberals in the leadership are ousted. The Czechoslovak people are particularly concerned that liberal National Assembly President Josef Smrkovsky will be demoted or ousted when federalization goes into effect. The Soviets are said to be insisting that Dubcek remove Smrkovsky because he has remained a staunch and voluble critic of the

Soviet Union and because he has discussed Czechoslovak-Soviet political problems in public.

Premier Cernik and Slovak party chief Husak implied in speeches last week that Smrkovsky will leave his government post. It is uncertain, however, whether Smrkovsky will choose to remain a member of the party presidium and its all-powerful executive committee. Dubcek would probably prefer to keep him in these posts in an attempt to minimize popular repercussions.

Smrkovsky, as one of the original "Big Four"--with Dubcek, President Svoboda, and Cernik--contributed to the strength of the Czechoslovak leadership by resisting Soviet pressures after the invasion. His removal from the government--although it might not entirely eclipse his political career--would damage the liberal cause considerably and might also facilitate the removal of other reformists who oppose further accommodation to Moscow.

Dubcek and his colleagues have been secretive lately about government policies, a development which has led to speculation that the Soviets have imposed more restrictions on the Czechoslovak leaders. Dubcek added to popular fears on 21 December by warning that unless the people unite behind the party leadership and support its policies, the party might have to take measures to control

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the situation that "seem undemocratic." New rumors of alleged concessions made by Dubcek to Moscow when he met with Soviet leaders in Kiev earlier this month have further increased the general uneasiness.

The five-day visit to Prague of a Soviet delegation headed by planning chief Baybakov resulted in a bilateral agreement providing for expanded economic cooperation, particularly in the post-1970 period, but apparently included no Soviet offers of hard-currency loans for Czechoslovakia. Baybakov reportedly said that the USSR would help Czechoslovakia by providing increased deliveries of natural gas, crude oil, foodstuffs, raw materials, and technological equipment. He is said to have remarked somewhat cynically that

Prague could satisfy any additional import requirements by buying "anywhere else it wished."

Because of its chronic shortage of hard currency, Prague will find it difficult to finance imports from the West, and presumably will have to proceed cautiously in applying to Western sources for credit. The new Soviet technology promised Czechoslovakia probably will not be an adequate substitute for the Western machinery and equipment with which it had hoped to modernize its industry so that it could compete in world markets. Czechoslovakia's economic dependence on the Soviet Union will undoubtedly increase as a result of these agreements.

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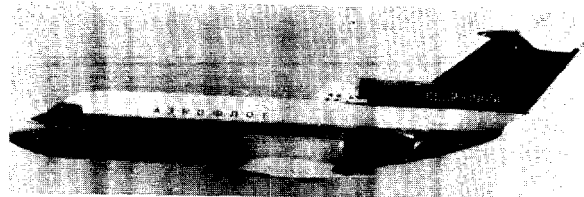
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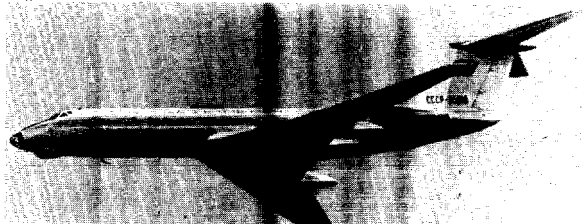
Soviet Commercial Aircraft



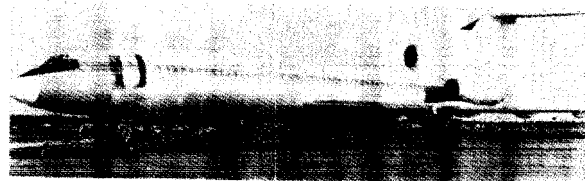
AN-24



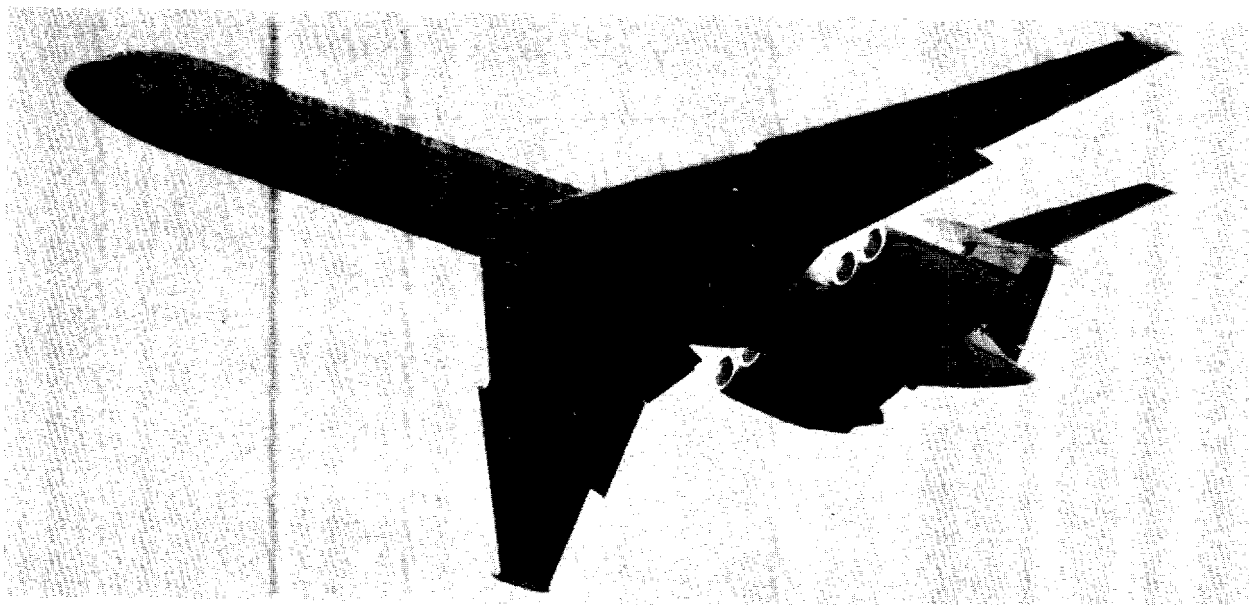
YAK-40



TU-134



TU-154



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IL-62

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MOSCOW PUSHES COMMERCIAL AIRCRAFT SALES

Despite some rebuffs, the USSR continues to make a determined effort to gain a share of the expanding world market for commercial aircraft. Bargain prices and easy repayment terms still attract customers from the less-developed countries, but Soviet aircraft promoters have yet to make any appreciable dent in the more developed markets of Western Europe and Japan.

The AN-24, a short-haul turboprop transport, remains one of Moscow's most popular export models in the less-developed areas. For example, an offer of AN-24s currently is under active consideration by a civil airline now being formed in Colombia, and the aircraft may be demonstrated in Bogota this month. If successfully negotiated, a contract would give the USSR its long-desired breakthrough into the traditional US and UK markets in Latin America. It would also afford Moscow an excellent opportunity to dispel its reputation for poor technical servicing, a primary factor hindering Soviet sales efforts in this area.

The USSR may hope to encourage closer trade ties with the Republic of the Congo by offering Kinshasa modern air transports such as AN-24s as well as MI-8 28-passenger helicopters. Payment would be in local currency, which would be used by the USSR to purchase Congolese products.

The YAK-40, which has a normal capacity of 24 passengers and is designed to operate from unpaved airfields, also may prove to be a popular export model. This short-haul jet transport has no direct Western equivalent. It will be available for export next year in limited numbers, and demonstration flights recently were held in Iran, Iraq, and Pakistan.

Moscow thus far has had little success in selling the TU-134, a short- to medium-range, twin-jet transport. The TU-154, a medium-haul, triple-jet transport, will not be available for export until 1970-71.

At that time it probably will face heavy competition from its Western counterpart, the Boeing 727. The sale of two TU-134s to a Yugoslav enterprise, however, carries a provision that these aircraft may be traded in for the larger TU-154, and a still pending offer of TU-134s to India has the same proviso.

Moscow is making a big selling pitch for its new IL-62 long-range jet transport. By offering to lease the aircraft, Moscow obviously hopes to convince potential customers that it is economically competitive with the comparable British VC-10. Air France leased an IL-62 for use this summer on its Moscow service and Alitalia may be considering the same arrangement.

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PORTUGUESE SOCIALISTS URGE LIBERAL REFORMS

A manifesto for political reforms issued last week by the Portuguese Socialists was intended to test how far the Caetano government will follow up on the new premier's promise of a more open society. The socialists are disappointed that their appeal has not yet been mentioned in the Portuguese press, but they intend to pursue an active course to obtain reforms.

The Socialists stress in their manifesto that, before a political dialogue can be established, there must be guarantees both for freedom of organization and activity of diverse political forces and for security of individuals against arbitrary actions of the political police and censorship. To accomplish this, the Socialists ask for a press law guaranteeing free expression, amnesty for political prisoners, abolition of certain arbitrary security measures, and an election law that satisfies minimal demands of the opposition. The Socialists hope that initially they will receive satisfaction on the demands for revision of censorship and elec-

toral laws. Caetano has shown some evidence of flexibility on these two matters.

The manifesto, reported to be primarily the work of Socialist leader Mario Soares, is evidence of the new tempo of activity among Socialists since last month when Soares was permitted to return after eight months of political exile. If there is no strong government reaction to the manifesto, the Socialists hope soon after the first of the year to proclaim themselves openly as a political party. They plan a regular program of party activity, holding meetings, and preparing an appeal to the voters in next year's National Assembly elections.

The manifesto is less acerbic in tone than similar opposition petitions in the past, but it does criticize the present system. To permit its publication would alarm Premier Caetano's rightist supporters and would run counter to his plans for cautious change.

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MIDDLE EAST - AFRICA

The visit last weekend to Cairo of a Soviet delegation led by Foreign Minister Gromyko apparently was intended to probe Nasir's views regarding a "big power" settlement with Israel. The visit also served as an outward manifestation of Soviet support for Egypt. The final joint communiqué reaffirms Soviet and Arab demands for an Israeli withdrawal from occupied Arab territory and Egypt's acceptance of the 1967 UN Security Council resolution.

[REDACTED] The Soviet moves added to Israeli uncertainties, following as they did on the heels of Governor Scranton's proposals for a "more evenhanded" US Middle East policy and France's espousal of a settlement imposed by the four powers.

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[REDACTED] Israel last week warned Lebanon through a neutral intermediary that it may take action to establish new defensive positions north of the present Lebanese-Israeli border in order to control terrorist intrusions into Israeli territory.

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Morocco announced that the long-planned visit of Algerian President Boumedienne will begin on 11 January. Both King Hassan and Boumedienne appear to be hopeful of improving relations, which have been vexed by both sides' harboring the other's opponents and by emotion-charged irredentist claims.

Sporadic violence continued in Pakistan this week, and students called a general strike in Rawalpindi to press their demands for academic concessions and the release of political prisoners. Some Pakistani labor organizations, which normally maintain an apolitical posture, have begun to express dissatisfaction with the government.

Fighting persisted in the Nigerian civil war despite Federal and Biafran announcements of truces for the holidays. More antitax riots have occurred in the Western State, where economic discontent and general disaffection with the state government is growing among the volatile Yoruba tribesmen.

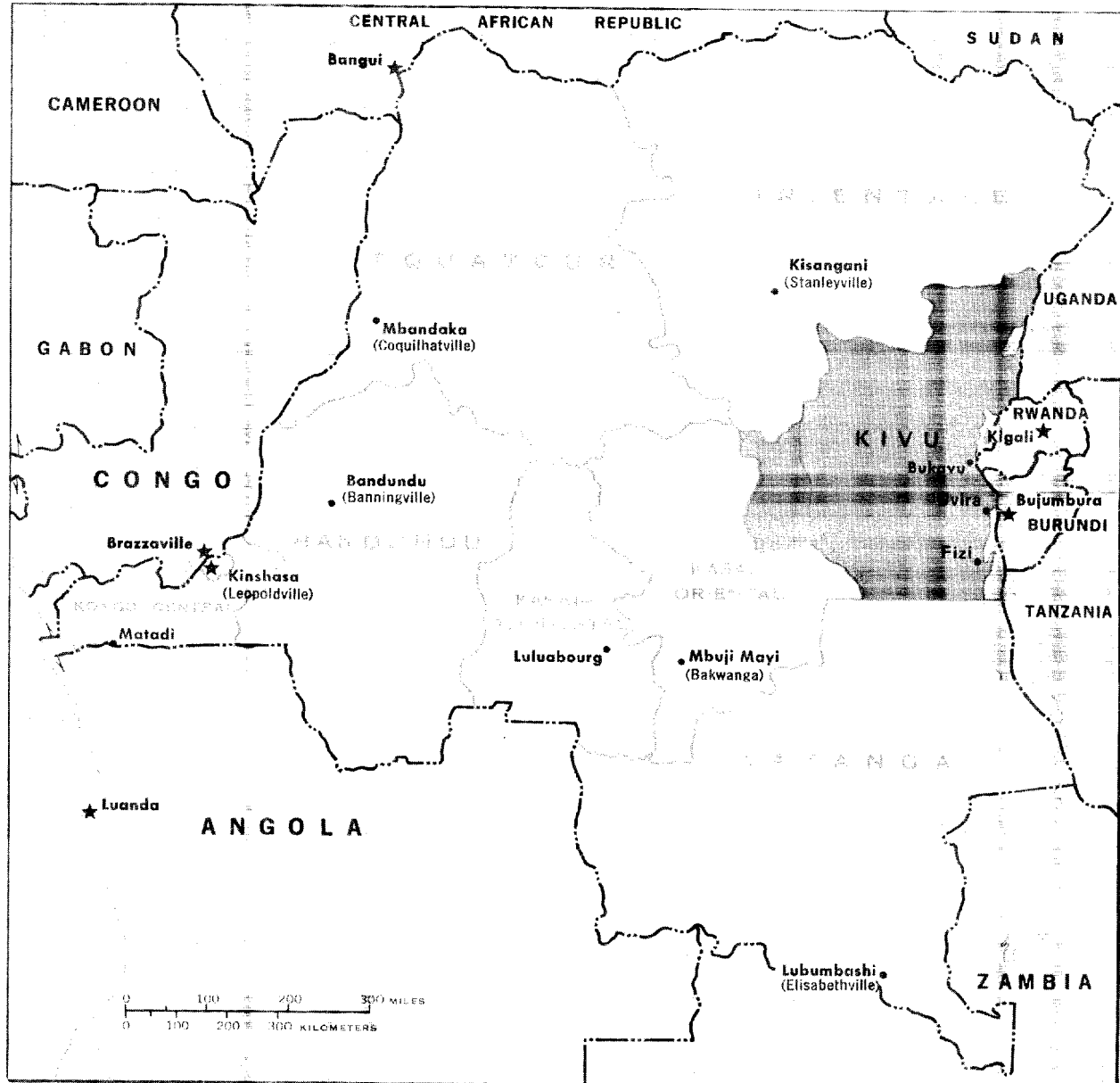
Guinean President Touré is increasingly concerned about the loyalty of his army in the wake of the successful military coup in neighboring Mali. Military units in the Conakry area were paraded en masse in a staged demonstration of support for Touré, and plans have been announced to make the army "full participants" in Guinea's "socialist revolution," presumably by involving it in economic development programs.

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DEMOCRATIC REPUBLIC OF THE CONGO



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REBEL RESURGENCE IN EASTERN CONGO

Rebel activity in the eastern Congo has increased during the past several months, but the competing rebel groups have not yet acquired the cohesion and initiative necessary to pose a significant threat to the central government.

Some rebel forces have been subsisting in the hills of the eastern Congo ever since the demise of the 1964-65 Simba rebellion. There are other rebels who have spent the past several years in refugee camps in Tanzania or Burundi, and still others who have returned to Tanzania following a period of training in Communist countries; these groups are reported to be moving into the Congo now to prepare for a major rebel offensive in early 1969. The Fizi and Uvira area of Kivu Province seems to be the rebels' initial objective. Reports of the size of the rebel forces probably are exaggerated; reliable figures are impossible to determine.

Rebel leaders have still not overcome their basic rivalries and conflicting ambitions. It was thought that the death of rebel leader Pierre Mulele at the hands of the Mobutu regime would give the rebels the spark necessary to forget petty differences and work together. It did not.

The rebels seem to be long on plans and dreams and short on results, and they have major obstacles to overcome before they can begin to resemble a fighting force. The Congolese army is aware of the rebels' increasing activity and has had occasional skirmishes with them. Chaos is never very far from the surface in the Congo, however, and should the rebels get the upper hand, the army could panic and turn to intimidation of the local population. Such a move would make the psychological climate in the eastern Congo even more receptive to the rebels.

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PAKISTAN'S ANTI-AYUB FORCES COALESCING

Concessions, promises of reform, and restrictions on political activity have failed to stem the tide of opposition to the government, although they have decreased the incidence of violence. Opposition elements appear to be moving toward increased cooperation in their antigovernment actions.

Government critic Asghar Khan has stepped up his campaign, aiming increasingly pointed verbal attacks at President Ayub and visibly warming to the adulation of the crowds. He returned to Rawalpindi on 20 December from a successful ten-day visit to East Pakistan where his public and closed-door appearances evoked equal enthusiasm. The authorities--who for a month have been keeping their eyes on Asghar but their hands off--decided last week to take their first action against him. They served him with a court summons to answer charges of unlawfully inciting a crowd to assemble in Dacca in defiance of a ban on public gatherings of five or more people. Conviction could mean a one-month jail sentence, which would almost certainly stimulate further unrest.

to carry off a relatively successful general strike that marked the final day of Ayub's visit to the eastern wing.

President Ayub has indicated his concern about the continuing unrest by canceling his January visits to Saudi Arabia and the London Commonwealth Conference.

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Accordingly, the government has made further conciliatory gestures toward students and has removed Ayub's unpopular son, Gohar, from several important political and commercial positions in Karachi. These concessions, however, have been accompanied by a get-tough policy on political demonstrations. The ban on public assembly in a number of West Pakistani cities has been tightened to cover groups of two or more people, essentially eliminating all political activity in the streets. The police are effectively enforcing the new restrictions, moving in quickly to disperse gatherings, arresting violators when necessary, and preventing large-scale disturbances from developing.

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Antigovernment forces also cooperated on 13 December

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NIGERIA FIGHTING CONTINUES DESPITE PROCLAIMED TRUCES

Both sides in the civil war have announced unilateral truces for the holidays, but these proclamations seem to have had little practical effect and are not likely to be extended or to lead to peace negotiations. As the military stalemate continues, signs of war-weariness are increasing, especially in the Western State where a spate of anti-tax riots, possibly with political overtones, are occurring.

The federal government's announcement that it would observe a cease-fire on the Moslem holiday 21 December and on Christmas Day was probably designed to sidestep growing international pressure for peace negotiations, primarily from the UK and from Ethiopian Emperor Haile Selassie.

Press reports from Umuahia indicate that Nigerian Air Force planes raided Biafra on 21 December, and it seems unlikely that all federal ground units will observe the truce.

Biafran leader Ojukwu has announced a 23-31 December truce, but his troops also will probably not observe it completely. Ojukwu's gesture appears to be an effort to score yet another propaganda victory over the federal

authorities. He has already derived propaganda benefits from his proposals for an unconditional cease-fire, which would be to the advantage of the Biafrans' defensive military situation.

On the war front, the Biafrans have scored a few more minor gains along the southern front, but there has been no major change in the military situation. Arms shipments to the Biafrans are continuing.

In the Western State, homeland of the volatile Yoruba tribesmen, antitax rioting has occurred sporadically since last month. On 23 December the state military governor imposed a curfew on Ibadan, the state capital. The antitax demonstrations appear to be rooted in genuine economic discontent, but there is evidence that dissident Yoruba politicians are encouraging nonpayment of taxes, reportedly in the hope of forcing the federal government to intervene and remove the military governor. This trouble in the West has almost certainly encouraged the Biafrans in their belief that a prolongation of the civil war will lead to the disintegration of the federation.

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WESTERN HEMISPHERE

Most Brazilians still appear resigned to last week's authoritarian decrees that have made the country a dictatorship without a dictator. Support for Costa e Silva's assumption of dictatorial powers is virtually nonexistent outside the military and business communities, but the nation does seem to be regaining some degree of normalcy.

On 20 December, Peru's military government tried to stage a giant rally to show support for President Velasco and his intransigent attitude toward the US over the expropriation of International Petroleum Company holdings and to counter the growing feeling in the military that he should be removed from the presidency. The rally was a dismal failure, however, and Velasco's political position probably has been weakened.

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Guatemala's terrorists were active again during Christmas week. On 23 December they set off a large bomb and killed two guards during a bank robbery in Guatemala City. The capital has been relatively free of violence recently.

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The first incidents of terrorism directed at US officials and installations in Haiti occurred last week. Two bombing attempts were made against a binational center. One caused minor damage, but the other was found before it could be set off. Some tension has developed within President Duvalier's inner circle as a result of the dictator's reconciliation with his eldest daughter who has returned after a long stay in Spain.

Preparations are under way in Cuba for the tenth anniversary celebration of the Castro Revolution. A major speech by Fidel is expected, but no special preparations are being made for the large military parade that was previously promised.

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BRAZIL QUIET IN WAKE OF NEW INSTITUTIONAL ACT

Most Brazilians are still resigned to last week's authoritarian decrees that have made Brazil a dictatorship without a dictator. Power relationships among officials are in flux, and it is still not clear who is in control of the country. President Costa e Silva clearly is not as autonomous as before, and he is unlikely to regain his former independence of action. More moderate military leaders, however, are apparently helping him regain some of his former authority.

Although Costa e Silva was forced by hard-line military officers to depart from constitutional procedures, an attempt is now being made to beef up his image as a leader in order to re-establish the governmental chain of command. Army Minister Lyra Tavares, for example, has asserted that the initiative for last week's repression came from the president. Support for Costa e Silva's assumption of dictatorial powers is virtually nonexistent outside the military and business communities, but the nation does seem to be regaining some degree of normalcy.

Former president Juscelino Kubitschek and opposition leader Carlos Lacerda have been released from jail. Kubitschek remains under house arrest, and Lacerda is under surveillance. Restoration of a free press is nowhere in sight, but international news services are no longer being cen-

sored. Although the University of Sao Paulo continues under police guard, many of the students arrested there on 17 December have now been set free.

The Church apparently has adopted a wait-and-see attitude. Church leaders say that for the present they will take no stand against the government as long as no top-ranking bishops are arrested and church publications are not proscribed. The government so far has made no move to suppress the country's most outspoken cleric, Archbishop Dom Helder Camara.

The country's political crisis has so far had only minimal impact on economic and commercial activity. Some business support has materialized for the government's stand. Most business leaders reportedly believe that the institutional act will at least allow the government to manage the economy more effectively.

The Brazilian press will not recover from the events of last week for a long time. Church and student groups are quiet at the moment, but it will be hard for them to remain so. Too vocal an opposition on their part, however, can only lead to further repression and, at least in the short run, strengthen the hand of the emerging clique of military hard liners.

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URUGUAY ON SLOW ROAD TO RECOVERY

Uruguayan President Jorge Pacheco began his second year in office on 6 December. Since inheriting the presidency upon the death of President Gestido, Pacheco has gradually put together an administration that is more or less of his own choosing. He seems to have a good understanding of the monumental difficulties involved in restructuring the country's political and economic life. His first year was a trying one. He was preoccupied primarily with obtaining the tools and the power to force a change in the country's long, downhill course.

Pacheco's greatest success has been in curbing inflation and restoring some degree of economic stability. On 12 December, congress passed the controversial price-wage-productivity bill that gives Pacheco greater power to control and guide the economy. The bill sets up a council to regulate private sector wages and prices and restricts the right to strike. These powers were formerly available only under the limited state of siege that has been in effect since 13 June. Pressure to end the state of siege has intensified

with the passage of the wage-productivity bill, but as long as scattered manifestations of urban unrest continue, the government will have a reasonable excuse for keeping it in effect.

In the political field, Pacheco's main concern has been lack of congressional support. Because of the defection of two small but important factions of his Colorado party, he has been virtually a minority president, dependent upon uncertain backing from the opposition Blanco Party. There are recurring rumors that Pacheco will bring Blancos into the government in order to assure their continued support, but this is uncertain. In the meantime, Pacheco also is busily currying favor with the remaining loyal Colorado factions. He recently appointed a member of the strongest faction to head the Interior Ministry. The Pacheco cabinet has, until now, been viewed basically as an organization of technocrats. The new appointment may signal a return to the traditional practice of parceling out cabinet posts among key political sectors.

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STRAINS IN THE CENTRAL AMERICAN COMMON MARKET

For the second time in six months, the seven-year-old Central American Common Market is faced with a troublesome internal dispute.

Nicaraguan President Somoza is dissatisfied both with the slow pace of integration, which he views as a curb on the expansion of Nicaraguan industry and with what he claims to be discrimination against Nicaraguan commercial interests. His four Common Market partners--Costa Rica, El Salvador, Honduras, and Guatemala--have been slow to pass economic legislation because of congressional roadblocks.

Some of the complaints are justified. The market has recently been plagued by a series of minor disputes as several of the countries have fallen back on protectionist attitudes. Costa Rica, where the opposition controls the legislature, still has not passed the six-month-old San Jose Protocol. The protocol calls for a 30-percent increase in the common tariff, which is designed to halt the area's rising trade deficit. Somoza, on the other hand, has had little

trouble with his subservient congress and, in his self-styled role as Central American leader, is determined to reform the market structure to his liking. He has indicated that he will seek congressional authority to withdraw from the market and suspend treaty obligations. He has discussed the possibility of an alternate Nicaraguan - Costa Rica - Panama economic grouping with Costa Rican President Trejos. Somoza is also considering closing the Nicaraguan border with El Salvador and Guatemala.

The Nicaraguan strong man will apparently delay any political fireworks until after the first of the year in the hope that his well-publicized threats will force some reform. His meeting with Trejos on 13 December and a conference this week with Honduras President Lopez appear to have calmed matters at least temporarily. Internal problems stemming from inadequate cooperation between countries in the market and recurrent nationalistic instincts are, however, likely to reappear.

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